

PUBLIC DISCLOSURE

JANUARY 29, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

NEWTON MUNICIPAL CREDIT UNION

1000 COMMONWEALTH AVENUE
NEWTON, MA 02459

DIVISION OF BANKS
100 CAMBRIDGE STREET
BOSTON, MA 02202

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Newton Municipal Credit Union prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory".

The credit union's performance in the area of Community Reinvestment was found to be satisfactory at this time.

The credit union's rating is based upon three criteria: Net Loan-to-Share Ratio, Lending to Borrowers of Different Incomes and Fair Lending Policies & Practices. The analysis of the credit union's loan to share ratios for the period June 30, 1997, through December 31, 1998, indicates an average of 41.1 percent for this period. Net loans have increased during this period by \$62,540, or 2.5 percent. However, the credit union's net loan-to-share ratio continues to be lower than other credit union's of similar size. The distribution of the credit union's loans reflects reasonable penetration among members of all income levels. The credit union's Fair Lending Policies & Practices are considered to meet the standards of satisfactory performance. When determining the overall rating, factors including the credit union's size, resources and staff limitations were taken into consideration.

The criteria for the various types of credit offered was reviewed during the examination, as were the procedures for completing a loan application, and no practices intended to discourage applications were found.

PERFORMANCE CONTEXT

Description of Institution

Newton Municipal Credit Union was chartered under the laws of the Commonwealth of Massachusetts in 1941. Newton Municipal Credit Union remains a state chartered industrial credit union serving the permanent employees of the City of Newton and its retirees, other than the employees of the Newton School Department. As of December 31, 1998, the credit union had total assets of \$8,186,136, with a net loan to asset ratio of 31.8 percent. The credit union primarily originates personal and automobile loans. The credit union has one office located at 1000 Commonwealth Avenue in the City Hall of Newton. Office hours are Monday through Friday from 9:00 a.m. to 3:00 p.m.

The credit union was last examined for compliance with the Community Reinvestment Act by the Commonwealth of Massachusetts Division of Banks on December 17, 1996. That examination resulted in a CRA rating of Satisfactory.

Description of Assessment Area

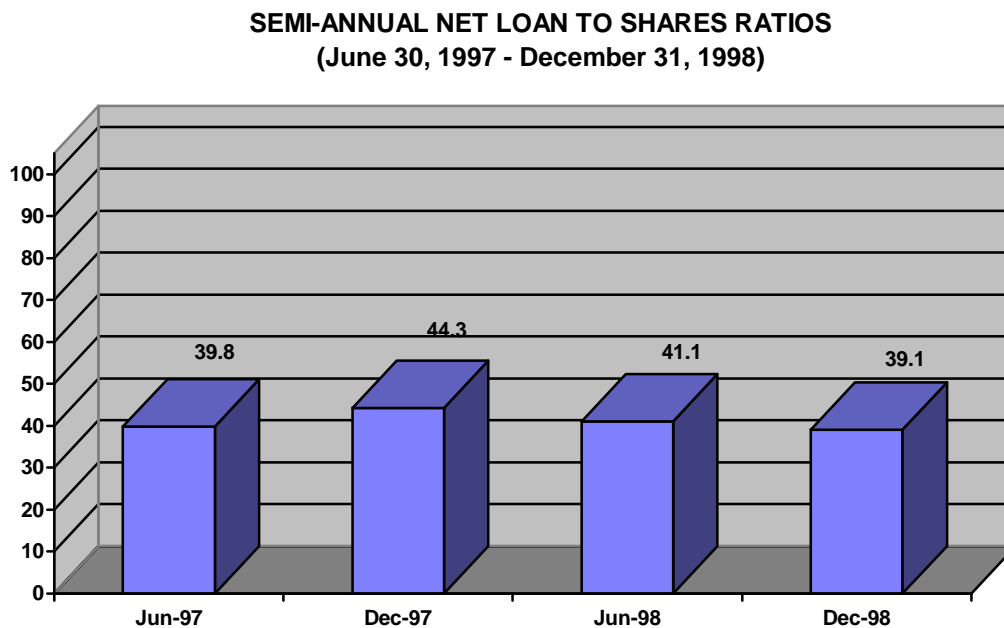
Newton Municipal Credit Union defines its assessment area as its membership, as permitted under the revised CRA regulation for credit unions whose bylaws are not based on residence. Membership in the credit union is open to permanent employees of the City of Newton other than employees of the Newton School Department. In addition, immediate family members are eligible to join the credit union for the purpose of joint accounts only. Currently, the credit union has approximately 1,360 members.

PERFORMANCE CRITERIA

1. LOAN TO SHARE ANALYSIS

A comparative analysis of Newton Municipal Credit Union's semi-annual net loan-to-share ratios for the period of June 30, 1997, through December 31, 1998, was conducted during this examination. Using the credit union's NCUA semi-annual 5300 Reports, the average net loan-to-share ratio for this period was 41.1 percent. This ratio is based on loans net of the allowance for loan losses as a percentage of total shares.

Refer to the following graph.



The credit union's net loan-to-share ratios have remained relatively stable over the past two years. From June 30, 1997 to December 31, 1997, net loans increased \$348,495 or 13.7 percent. However, from December 31, 1997 to December 31, 1998, the net loans decreased \$285,955 or 9.9 percent. Shares from June 30, 1997 to December 31, 1998 increased \$270,115 or 4.2 percent.

A comparison of the net loan-to-share ratio of five other credit unions of similar eligibility was also conducted. These other institutions' net loan-to-share ratios ranged from 38.8 percent to 88.4 percent for June 30, 1998. Newton Municipal Credit Union's net loan-to-share ratio for the same time period was 41.1 percent.

The following table provides the net loan-to-share ratio for the other similar type credit unions. The ratios shown are calculated from the NCUA's Call Report data for June 30, 1998.

COMPARATIVE NET LOAN-TO-SHARE RATIO ANALYSIS

CREDIT UNION	NLTS RATIO
Newton Municipal Credit Union	41.1
Haverhill Municipal Credit Union	88.4
Lynn Municipal Credit Union	56.2
Medford Municipal Credit Union	56.1
Gloucester Municipal Credit Union	54.9
Billerica Municipal Credit Union	38.8

While somewhat low in comparison to the average ratio of similar credit unions, Newton Municipal Credit Union's average net loans to shares ratio nevertheless appears to be within an acceptable range. Based upon the above information, including growth in loans and growth in deposits, the credit union's average loan to share ratio is considered to meet the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Under the revised Massachusetts CRA regulation, a credit union whose by-laws are not based on residence, such as the Newton Municipal Credit Union, may define its membership as its assessment area. Since a membership-defined assessment area does not consider any fixed limits on geography, an analysis involving credit extended inside a particular defined geographic area compared to credit extended outside of a particular geographic area is not meaningful.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The credit union originated 480 consumer loans in 1997 totaling \$3,062,664, and 384 consumer loans in 1998, totaling \$2,223,486. All of the originations involved personal and automobile loans. A sample of 45 consumer loans from 1997 and 1998 were taken in order to determine the distribution of credit based on the income levels of members. All of the consumer loans sampled were extended to members residing in the Boston Metropolitan Statistical Area (MSA), the Barnstable MSA, the Brockton MSA, and the Lowell MSA. The originations were categorized by the ratio of the applicant's reported income compared to the estimated 1997 and 1998 median family incomes of these MSA's. The income figures in the table below are based on estimated Department of Housing and Urban Development (HUD) information.

MSA Income Levels

MSA	1997	1998
Boston MSA	\$59,600	\$60,000
Barnstable MSA	\$44,700	\$44,700
Brockton MSA	\$53,900	\$53,900
Lowell MSA	\$59,100	\$59,200

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the Metropolitan Statistical Area (MSA). Moderate income is defined as income between 50 and 79 percent of the median family income level for the MSA. Middle income is defined as income between 80 and 119 percent of the median income. Upper income is defined as income equal to or greater than 120 percent of the median income.

The random sample for the two-year period indicated that 47.8 percent of the loans were made to low-income members and 44.4 percent were made to moderate-income members. The following tables provide further detail.

Consumer Lending to Borrowers of Different Income Levels

% OF MEDIAN MSA INCOME	1997		1998		TOTAL	
	#	%	#	%	#	%
<50%	23	51.1	20	44.4	43	47.8
50% - 79%	20	44.4	20	44.4	40	44.4
80% - 119%	2	4.5	5	11.2	7	7.8
120% >	0	0.0	0	0.0	0	0
TOTAL	45	100.0	45	100.0	90	100.0

Source: Consumer Loan sample Data for 1997 & 1998

**Dollar Amount of Consumer Loan Originations
by Income of Borrower**

% OF MEDIAN MSA INCOME	1997		1998		TOTAL	
	\$	%	\$	%	\$	%
<50%	\$126,660	45.1	\$83,514	38.0	\$210,174	42.0
50% - 79%	\$139,125	49.5	\$107,660	49.0	\$246,785	49.3
80% - 119%	\$15,300	5.4	\$28,540	13.0	\$43,840	8.7
120% >	\$0	0.0	\$0	0.0	\$0	0.0
TOTAL	\$281,085	100.0	\$219,714	100.0	\$500,799	100.0

Source: Consumer Loan Sample Data for 1997 & 1998

It should be noted that a majority of the consumer loans reviewed used single incomes for qualifying purposes. Since the income analysis utilizes median family household income, the results of the review may be somewhat inflated towards low and moderate-income borrowers

Based upon the analysis of consumer loans by borrower income, it appears that the credit union's lending is adequately distributed to members of various income levels, specifically those of low and moderate-income. Performance in this category is therefore considered to meet the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

According to the CRA regulations, an institution shall delineate one or more assessment area within which the institution will serve to meet the credit needs of its community and by which the Division will evaluate the institution's CRA performance. The revised Massachusetts state CRA regulation 209 CMR 46.00 states that credit unions whose membership by-laws provisions are not based on residence may be permitted to delineate their membership as their assessment area. Therefore, since Newton Municipal Credit Union has defined its assessment area as its membership, as opposed to a geographic area, an evaluation of credit extended by census tract was not conducted.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

REVIEW OF COMPLAINTS

A thorough review of the public comment file revealed that the credit union received no complaints pertaining to its CRA performance since the previous examination.

FAIR LENDING POLICIES AND PRACTICES

The credit union's fair lending performance was considered to meet the standards of satisfactory performance according to the guidelines set forth in the Division of Banks Regulatory Bulletin 2.3-101.

STAFF TRAINING

The credit union has not conducted or participated in any training relevant to the Community Reinvestment Act. However, both employees were cognizant of the rules and regulations of the Community Reinvestment Act.

STAFF COMPOSITION AND COMPENSATION

Newton Municipal Credit Union currently consists of two employees. Both employees are paid on a salary basis, so that there is no undue incentive to originate high dollar amount loans at the expense of low dollar amount loans.

OUTREACH

The credit union sends out mailings to all individuals within its field of membership on a regular basis. The credit union distributes a letter to the personnel department to give to new employees. The letter describes the credit union and includes a list of its services and current rates.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

Management and the Board regularly discuss offering new credit products. The credit union offers special programs throughout the year.

MARKETING

Newton Municipal Credit Union sends out quarterly statements to all members that include a message stating the current rates and loan specials. In addition, flyers are posted outside of the credit union's office as well as on bulletin boards throughout City Hall.

CREDIT EDUCATION

The credit union does not sponsor or participate in any credit education seminars due to its size and limited resources. Management does inform members of the various seminars offered by Members Mortgage.

COUNSELING

The credit union refers members in need of credit assistance to the Consumer Credit Counseling Service of Massachusetts, Inc. Management of the credit union provides general information regarding credit management in an informal format.

SECOND REVIEW PRACTICES

In order to ensure that policies and procedures are not discriminatory as well as for quality control purposes, the Credit Committee reviews all approved and declined loan applications. The credit union has not denied an application since the previous examination. If a member is denied a loan from the credit union, the credit committee requests that the member address the situation in writing. The committee will then review the application along with the letter of explanation.

INTERNAL CONTROL PROCEDURES

The credit union utilizes the services of an outside firm on a yearly basis. As part of their audit, loan files were reviewed for fair lending issues. No discrimination or disparate treatment had been noted.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

NEWTON MUNICIPAL CREDIT UNION

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **JANUARY 29, 1999**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 19 ____